

**REPORT OF THE AUDIT OF THE
FORMER MONTGOMERY COUNTY
CLERK**

**For The Period January 1, 2002
Through November 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER MONTGOMERY COUNTY CLERK

**For The Period January 1, 2002
Through November 30, 2002**

The Auditor of Public Accounts has completed the former Montgomery County Clerk's audit for the period January 1, 2002 through November 30, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former County Clerk's office generated operating receipts of \$5,726,407 and had operating disbursements of \$5,510,250 for the period January 1, 2002 through November 30, 2002. After paying the former County Clerk's statutory maximum of \$61,147 and expense allowance of \$3,300, excess fees were \$151,710.

Report Comments:

- Lacks Adequate Segregation Of Duties

Deposits:

The former Clerk's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
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To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable B. D. Wilson, Jr., Montgomery County Judge/Executive
Honorable Judy Long Witt, Former Montgomery County Clerk
Honorable Carolyn Highley, Montgomery County Clerk
Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Clerk of Montgomery County, Kentucky, for the period January 1, 2002 through November 30, 2002. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Clerk for the period January 1, 2002 through November 30, 2002, in conformity with the modified cash basis of accounting.



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In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2003, on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 26, 2003

MONTGOMERY COUNTY
JUDY LONG WITT, FORMER COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through November 30, 2002

Receipts

State Grants		\$	6,746
State Fees For Services			8,282
Fiscal Court			67,885
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	637,375	
Usage Tax		3,181,300	
Tangible Personal Property Tax		1,335,792	
Licenses-			
Marriage		7,624	
Dog		395	
Deed Transfer Tax		64,177	
Delinquent Tax		207,643	5,434,306
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	34,864	
Real Estate Mortgages		46,773	
Chattel Mortgages and Financing Statements		81,456	
Powers of Attorney		1,680	
All Other Recordings		12,105	
Charges for Other Services-			
Candidate Filing Fees		2,100	
Copywork		5,980	184,958
Other:			
Notary Fees	\$	9,899	
Passports		10,440	20,339
Interest Earned			3,891
Total Receipts		\$	5,726,407

The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY
 JUDY LONG WITT, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Period January 1, 2002 Through November 30, 2002
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 459,340

Usage Tax 3,086,906

Tangible Personal Property Tax 488,353

Licenses, Taxes, and Fees-

Dog Licenses 331

Delinquent Tax 29,196

Legal Process Tax 22,188

Miscellaneous 960 \$ 4,087,274

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 113,958

Delinquent Tax 16,484

Deed Transfer Tax 60,969 191,411

Payments to Other Districts:

Tangible Personal Property Tax \$ 674,162

Delinquent Tax 110,661 784,823

Payments to Sheriff

2,572

Payments to County Attorney

30,224

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 295,921

Employee Benefits-

Employer's Share Social Security 20,541

Employer's Share Retirement 18,596

Employer's Paid Health Insurance 42,070

Other Payroll Disbursements 294

Materials and Supplies-

Office Supplies 1,349

MONTGOMERY COUNTY

The accompanying notes are an integral part of this financial statement.

JUDY LONG WITT, FORMER COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Period January 1, 2002 Through November 30, 2002
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:
 (Continued)

Other Charges-

Conventions and Travel	\$	3,783
Library and Archives Grant		6,746
Passports		7,620
Miscellaneous		1,145

Capital Outlay-

Office Equipment		<u>2,211</u>	\$	400,276
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Debt Service:

Computer Lease and Maintenance		<u>13,670</u>
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Total Disbursements			\$	<u>5,510,250</u>
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Net Receipts			\$	216,157
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Less: Statutory Maximum				<u>61,147</u>
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Excess Fees			\$	155,010
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Less: Expense Allowance				<u>3,300</u>
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Excess Fees Due County for 2002			\$	151,710
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Payments to County Treasurer- January 17, 2003	\$	73,807		
February 20, 2003		76,492		
March 26, 2003		<u>1,411</u>		
				<u>151,710</u>

Balance Due at Completion of Audit			\$	<u><u>0</u></u>
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The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT

November 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at November 30, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the remainder of the period ending November 30, 2002.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT
November 30, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of November 30, 2002, the former County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former County Clerk's agent in the former County Clerk's name, or provided surety bond which named the former County Clerk as beneficiary/obligee on the bond.

Note 4. Grant

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$6,746. Funds totaling \$6,746 were expended during the period January 1, 2002 through November 30, 2002.

Note 5. Lease

The office of the County Clerk is committed to a lease agreement with Software Management for a computer equipment and maintenance. The agreement requires a monthly payment of \$1,237 for 24 months to be completed on July 1, 2003. The total balance of the agreement was \$9,896 as of November 30, 2002.

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COMMENT AND RECOMMENDATION

MONTGOMERY COUNTY
JUDY LONG WITT, FORMER COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Period January 1, 2002 Through November 30, 2002

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. To offset this lack of segregation of duties, the former County Clerk could have implemented compensating controls and procedures.

- Surprise cash counts should have been conducted by the former County Clerk
- The County Clerk should have, on a surprise basis, agreed daily AVIS computer totals to amounts recorded in the ledgers
- The County Clerk should have reconciled other monthly reports to source documents and ledgers

Former County Clerk's Response:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the former Montgomery County Clerk for the period January 1, 2002 through November 30, 2002, and have issued our report thereon dated March 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Montgomery County Clerk's financial statement for the period January 1, 2002 through November 30, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Montgomery County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management, is not intended to be, and should not be used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 26, 2003

